

## Message Text

CONFIDENTIAL POSS DUPE

PAGE 01 ACCRA 03861 01 OF 02 161028Z

11

ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EA-11 ISO-00 SP-03 AID-20 NSC-07

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 INT-08

GSA-02 DRC-01 /190 W  
----- 000287

R 160905Z JUL 74

FM AMEMBASSY ACCRA

TO SECSTATE WASHDC 4236

INFO AMEMBASSY KINGSTON

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 ACCRA 3861

E.O. 11652: GDS

TAGS: EMIN EFIN EIND US GH

SUBJ: ASSESSMENT OF INVESTMENT, TAXATION, AND EXPROPRIATION  
TRENDS IN ALUMINUM/BAUXITE INDUSTRY

REF: A) STATE 145450 B) ACCRA A-43, MAY 9, 1974

C) ACCRA 2437

SUMMARY. GHANA PROBABLY SEES JAMAICAN ACTION AS  
FORTUITOUS HELP IN ATTRACTING SIGNIFICANT ADDITIONAL  
FOREIGN INVESTMENT IN GHANAIAN BAUXITE/ALUMINUM INDUSTRY,  
NOT AS CUE TO TRY TO TRY TO EXTRACT GREATER ADVANTAGE FROM  
EXISTING INVESTMENT. ONCE NEW INVESTMENT WERE MADE, GHANA MIGHT  
BE MORE INCLINED CONSIDER UNILATERAL JAMAICO-STYLE ACTION, BUT  
THIS RISK COULD BE MINIMIZED BY INTERLOCKING AGREEMENTS  
INVOLVING USG, OTHER FOREIGN GOVERNMENTS, AND INTERNATIONAL  
FINANCIAL INSTITUTIONS. END SUMMARY.

1. JAMAICAN HIKE IN EXPORT TAXES HAS FITTED IN NEATLY WITH  
STRONG GHANA GOVERNMENT (GOG) DESIRE THAT KAISER ALUMINUM  
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PAGE 02 ACCRA 03861 01 OF 02 161028Z

PUSH AHEAD WITH JAPANESE PARTNERS (ARDECO) ON PROS-  
PECTIVE EXPLOITATION OF KIBI BAUXITE AND ESTABLISHMENT

OF ALUMINA PLANT (REF B). JAMAICAN MOVE HAS ALSO DOUBTLESS WHETTED KAISER INTEREST IN PROJECT, SINCE ACCORDING TO DEPT'S CURRENT ECONOMIC DEVELOPMENTS 85 OF JUNE 25 KAISER DEPENDS ON JAMAICA FOR UP TO 73 PERCENT OF COMPANY'S NEEDS.

2. GHANA'S PRESENT BAUXITE PRODUCTION, ABOUT 300,000 LONG TONS A YEAR, IS ALL FROM GOG JOINT VENTURE WITH BRITISH ALUMINIUM (MINORITY OWNED BY REYNOLDS) BASED ON DEPOSIT WORKED IN WESTERN REGION FOR MANY YEARS AND EXPORTED PRIMARILY TO UK, CANADA, AND WESTERN EUROPE. GHANA HAS NO ALUMINA FACILITY AT PRESENT. VALCO ALUMINUM SMELTER (OWNED 90 PERCENT BY KAISER AND 10 PERCENT BY REYNOLDS) AT TEMA EXPORTS ALL OF ITS ANNUAL CAPACITY OF 152,000 LONG TONS OF BARS AND INGOTS A YEAR TO WIDE RANGE OF COUNTRIES, WITH SIGNIFICANT QUANTITIES TO US, JAPAN, UK, NETHERLANDS, SWEDEN, AND ARGENTINA. VALCO IS PLANNING TO EXPAND ALUMINUM PRODUCTION CAPACITY BY TWENTY-FIVE PERCENT (SEE RECENT VALCO APPLICATION TO EXIMBANK). VALCO PRESENTLY RELIES ON JAMAICA FOR ABOUT ONE-THIRD OF ITS ALUMINA AND ON US FOR MORE THAN HALF, BUT MUCH OF US ALUMINA PRESUMABLY BASED ON JAMAICAN BAUXITE. RESIDUAL VALCO ALUMINA IMPORTS COME PRIMARILY FROM AUSTRALIA.

3. IF PLANNED ALUMINA PLANT BASED ON KIBI BAUXITE PROCEEDS AS ENVISAGED, VALCO WILL BE ABLE SATISFY ITS ENTIRE ALUMINA REQUIREMENT Y OM WITHIN GHANA, AND KAISER WILL HAVE RIGHT AND INDEED OBLIGATION TAKE SHARE OF REMAINING ALUMINA PRODUCTION TO BE DISPOSED OF BY EXPORT. ASSUMING FEASIBILITY STUDY CURRENTLY IN PROGRESS RESULTS IN IMPLEMENTATION OF LETTER OF INTENT SIGNED IN MAY, KAISER WILL WANT EXIMBANK AND OPIC FACILITIES IN ARRANGING KAISER SHARE OF FINANCING AND WILL ALSO PROBABLY WANT USG SUPPORT OF PROBABLE GOG APPLICATION TO IBRD (OR IDA) FOR LOAN TO FINANCE FOREIGN EXCHANGE PART OF GOG INFRASTRUCTURE COSTS.

4. JAMAICA HAS BEEN IN TOUCH WITH GHANA. IN LATE MAY  
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PAGE 03 ACCRA 03861 01 OF 02 161028Z

DUDLEY THOMSON, GOJ MINISTER OF STATE FOR FOREIGN AFFAIRS, VISITED GHANA AND CALLED ON HEAD OF STATE ACHEAMPONG. THOMSON WAS ACCOMPANIED BY T.BYER, CONSULTANT TO JAMAICAN MINISTRY OF LANDS AND MINERAL RESOURCES. ALTHOUGH WE DO NOT KNOW WHAT TRANSPIRED, WE ASSUME GHANA SEES JAMAICAN DEVELOPMENTS AS OPPORTUNITY ACCELERATE DEVELOPMENT OF GHANAIAAN BAUXITE/ALUMINA/ALUMINUM INDUSTRY. WE DOUBT GOG WOULD REOPEN MAY LETTER OF INTENT ON BAUXITE/ALUMINA INVESTMENT BETWEEN GOG AND KAISER AND ITS JAPANESE PARTNERS JUST TO BRING PROVISIONS IN LINE WITH

JAMAICAN PATTERNS.

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PAGE 01 ACCRA 03861 02 OF 02 161018Z

20

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C O N F I D E N T I A L SECTION 2 OF 2 ACCRA 3861

5. THERE ARE TWO ADDITIONAL DEVELOPMENTS WORTH NOTING:

A. JAPANESE TEAM HAS RECENTLY MADE A VERY PRELIMINARY EXPLORATORY VISIT TO TEMA TO EXAMINE POSSIBILITY OF ESTABLISHING NEW ALUMINUM SMELTER WHICH WOULD BE ENTIRELY SEPARATE FROM VALCO SMELTER. TEAM WAS HEADED BY IDEKA OF LIGHT METALS DIVISION OF MITSUBISHI CHEMICAL INDUSTRIES LTD.

B. GOG IN APRIL PROVISIONALLY CONTRACTED WITH CHEMOKOMPLEX OF HUNGARY TO CONDUCT WITH ALUTERV, ALSO OF HUNGARY, A US DOLLAR 611,300 FEASIBILITY STUDY AT GOG EXPENSE ON DEVELOPMENT OF BAUXITE DEPOSITS AT NYINAHIN (IN WESTERN PART OF ASHANTI REGION), ESTABLISHMENT OF ALUMINA PLANT AND ALUMINUM SMELTER, AND CONSTRUCTION OF SEMIFABRICATION FACILITY (PRESUMABLY MEANING ROLLING MILL. COMMENT: GHANAIA MOTIVES MAY INCLUDE DESIRE TO OBTAIN ANALYSIS AGAINST WHICH KAISER AND OTHER POSSIBLE PROPOSALS CAN BE EVALUATED. CAUTION: INFORMATION ON CHEMOKOMPLEX CONTRACT SUPPLIED BY SENSITIVE SOURCE AND SHOULD BE PROTECTED.

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PAGE 02 ACCRA 03861 02 OF 02 161018Z

6. CONCLUSIONS:

A. WE THINK GOG WILL NOT ATTEMPT DURING NEXT FEW YEARS NEGOTIATE MAJOR REVISION OF TERMS GOVERNING EXISTING VALCO OPERATIONS AND THAT GOG WILL NOT TAKE UNILATERAL ACTION IN VIOLATION OF VALCO MASTER AGREEMENT. THIS MASTER AGREEMENT, COVERING EVERY CONCEIVABLE VARIABLE, INCLUDING TAX RATES, WAS MADE WITH POST-INDEPENDENCE GOG AND IS TIED TO COMPLEX WEB OF RELATED GOG COMMITMENTS TO USG (AID, EXIMBANK, AND OPIC), IBRD, AND UK (ECGD). WE DO NOT EXCLUDE NEGOTIATED MINOR AMENDMENTS TO MASTER OR SUBSIDIARY AGREEMENTS ON SUCH MATTERS AS POWER RATE BUT DO NOT ENVISAGE MAJOR CONFRONTATIONS OVER SUCH ADJUSTMENTS. BRITISH ALUMINIUM OPERATION, ESTABLISHED IN COLONIAL TIMES, WAS SUCCESSFULLY RENEGOTIATED WITH GOG IN 1972 AND 1973 TO GIVE LATTER 55 PERCENT EQUITY. BECAUSE THIS OPERATION DOES NOT HAVE BENEFIT OF GOG AGREEMENT TO DETAILED ARRANGEMENTS IT IS POSSIBLE GOG MAY UNILATERALLY CHANGE CONDITIONS. FOR EXAMPLE, THIS YEAR GOG RAISED ROYALTY RATE ON GOLD FROM FIVE TO SIX PERCENT, BUT THERE WAS NO PRIOR GOG UNDERTAKING TO GOLD COMPANIES NOT TO RAISE RATES.

B. ASSUMING KAISER, ARDECO, AND GOG NEGOTIATE ENVISAGED NEW INVESTMENT OVER US DOLLARS 150 MILLION IN BAUXITE AND ALUMINA, ONCE NEW INSTALLATIONS IN PLACE AND OPERATING SOME YEARS HENCE GHANA'S NEGOTIATING POSITION WILL BE STRONGER AND GOG MAY BE TEMPTED TO IMPROVE ITS EARNINGS BY SQUEEZING FOREIGN INVESTORS. BEST DETERRENT TO SUCH EVENTUAL GOG ATTEMPT TO REVISE ARRANGEMENTS WOULD BE INTERLOCKING AGREEMENTS SUCH AS THOSE UNDER PRESENT VALCO MASTER AGREEMENT, WHEREBY UNILATERAL GOG MOVE COULD AUTOMATICALLY PLACE GHANA IN DEFAULT OF ITS FORMAL WRITTEN PROMISES TO AN IMPORTNAT GROUP OF GOVERNMENTS AND FINANCIAL INSTITUTIONS.  
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## Message Attributes

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